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DEPARTMENT FOR SA/INS, INL
JUSTICE FOR OIA, AFMLS, AND NDDS
TREASURY FOR FINCEN

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SUBJECT: 2002-2003 International Narcotics Control
Strategy Report (INSCR) Part II Financial Crimes and Money
Laundering - Maldives

REF: 02 State 240035

1. Provided below is Post's response to reftel request for information on Maldives' regulations and practices regarding financial crimes and money laundering. This submission is based on information received from the Ministry of Foreign Affairs of the Maldives and other publicly available documents.

2. Maldives is not considered an important regional financial center. The financial sector of the Maldives is very narrowly based with five commercial banks (one international bank, three branches of public banks from neighboring countries and one state owned Maldives Bank), two insurance companies, a government provident fund, and a leasing company. HSBC set up in 2002 is the only international bank operating in Maldives. HSBC's strong regulatory, supervisory and disclosure standards are expected to improve the financial sector in Maldives. The International Finance Corporation (IFC) of the World Bank group has invested in a joint venture leasing company recently. There are no offshore banks and finance companies.

----- Laws and Regulations to prevent money laundering -----

3. Maldives Monetary Authority (MMA) is the regulatory agency for the financial sector. MMA has authority to supervise the banking system through Maldives Monetary Authority Act and regulations on banks and financial institutions. These laws and regulations provide MMA access to records of financial institutions and allow it to take actions against suspended criminal activities. Banks are required to report any unusual movement of funds through the banking system on a daily basis following events of September 11. There is no specific legislation to deal with money laundering but separate laws address narcotics trade, terrorism, and corruption: Law No 17/77 on Narcotic Drugs and Psychotropic Substances prohibits consumption and trafficking of narcotics. The law also prohibits laundering of proceeds from narcotics trade. (ii) Law No 2/2000 on Prevention and Prohibition of Corruption prohibits corrupt activities by both public and private sector officials. It provides for the forfeiture of proceeds and also empowers judicial authorities to freeze accounts pending a court decision.

4. The Government of Maldives has approved the development of an Anti-Money Laundering Law and establishment of a financial intelligence unit. MMA is seeking technical assistance from the US and the World Bank for these activities.

Terrorist Finance -----

5. Law no 10/90 on Prevention of Terrorism in the Maldives deals with some aspects of money laundering and terrorist financing. The law defines terrorist offences and acts of terrorism which include causing and attempting to cause death and bodily harm, instilling fear into a person or the public, kidnapping, hostage taking, hijacking, importation and use of firearms, ammunition, explosives, dealing in firearms and related items and setting fire and causing damage to property. Provision of funds or any form of assistance towards the commissioning or planning any such terrorist activity is unlawful.

6. MMA has issued "know your customer" directives and other instructions to banks enforcing freeze order requests received from the U.S. Government. The MMA directives are binding on the banks and other financial institutions. According to the Maldives Foreign Ministry, MMA monitors unusual financial transactions through banks, financial institutions and money transfer companies through its bank supervision activities. To date, there have been no known cases of terrorist financing activities through banks in Maldives. The four foreign banks operating in the country also follow instructions issued with regard to terrorist

financing by their parent organizations.

International Cooperation

17. Key officials of the Maldives Law Commission, Attorney General's office and the MMA attended several conferences on combating money laundering and terrorism in 2002. In July 2002, OECD concluded that the Maldives is not a tax haven. OECD said that Maldives does not have an offshore sector in financial services and is heavily transparent. OECD also reported that Maldives does not have administrative practices that prevent the effective exchange of information. According to an IMF staff report dated December 2002, Maldivian authorities believe that the Maldives is in line with international guidelines to combat money laundering and financing of terrorism. The IMF deferred a discussion on the subject as data were still being compiled at the time of the IMF mission.

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